Organizational Behaviour - II

Prof. Sangeeta Sahney
Vinod Gupta School of Management
Indian Institute of Technology – Kharagpur

Lecture – 31
Decision Making

Namaskar. Today, we will be beginning with a new topic which is 'Decision Making'. This is Week VII, or Module VII, Lecture I, where I will be introducing to you the Concept of Decision Making, the Definition of Decision Making, and the Various types of Decisions that we make. Of course, this particular topic on Decision Making will be spread across five lectures. And we will be talking about, you know, the Concept, the Definition of Decision Making, Types of Decisions, Organizational Decision Making, Employee Involvement in Decision Making, Analytical Model of Decision Making; we will be talking about Individual Decision Making and then we will move on to discussing Group Decision Making. And then we will see how Individual Decision Making, you know, differs from Group Decision Making, and what is more effective and what is a more, you know, Efficient way of making decisions in the long run. We will be talking about Organizational Decision Making Processes. We will also discuss Contingency Decision Making Framework, and we will finally, you know, conclude with a discussion on Different Decision Making Styles, Cultural Differences in Decision Making, Ethics in Decision Making, Common Biases and Errors, you know, in Decision Making; How do you Reduce Bias and Error in Decision Making; and we will talk about the Ways in which we can improve our decision making and counter the or fight the constraints in decision making. So, this is all that we will be discussing in this particular topic. But today, I will be talking about Decision Making in general, and to start with our discussion on the Concept of Decision Making, the Definition of Decision Making and the Types of Decisions.

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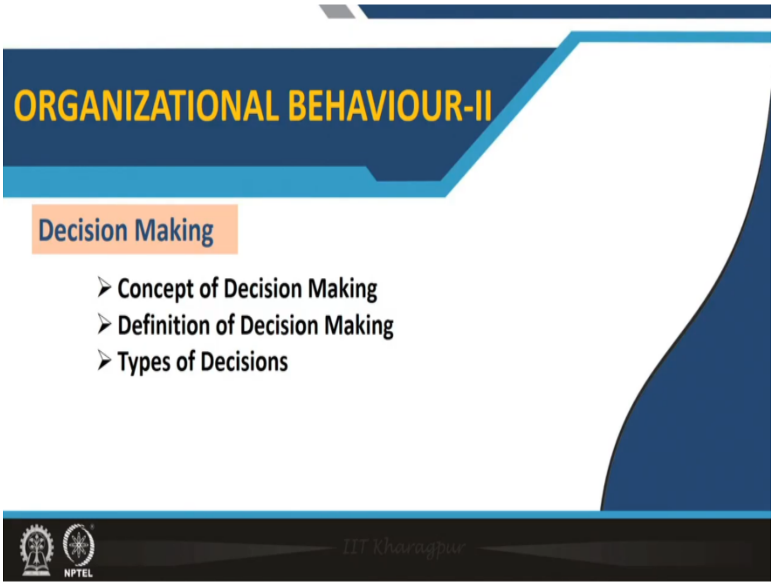

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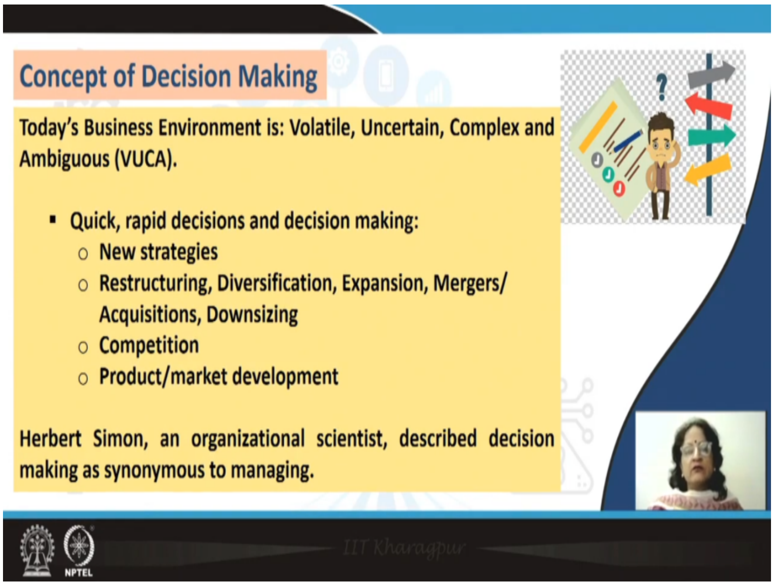

So, to begin with, you know, today's business environment is a VUCA environment. VUCA here means, it is a very Volatile environment; keeps changing very quickly; uncertainty: there is huge amount of uncertainty that organizations face; huge amount of complexity; and a lot of ambiguity. So, when we call this, you know, we term it as VUCA - Volatile, Uncertain, Complex, and Ambiguous. So, today's business environment is a VUCA environment. Nothing is sure; nothing is certain; nothing can be clearly specified or stated; so, there is lot of ambiguity; changes are very quick; everything keeps changing every day. So, there is huge amount of volatility and there is a huge amount of uncertainty. What is good today may not be good tomorrow; what is something which we consider, you know, desirable, may not be desirable tomorrow. The business environment keeps changing and so companies have to, you know, keep changing their goals, their policies, their plans, everything. And so, for this, you know, companies have to be always and always into some kind of a decision making, quick rapid decisions and decision making. These decisions could pertain to new strategies, whether it is a production & operation strategy, or marketing strategy, or HR strategy, or R&D or IT, and some decisions involve restructuring, diversification, expansion, mergers, acquisitions, downsizing. There is a huge amount of competition which companies face today, and there are pressures for product development for market development, and so, companies have to be always and always on a day to day basis, they have to keep taking decisions. As I said, because the environment is so volatile, so uncertain, so complex, so ambiguous, the business environment keeps changing for any and every organization. The business environment keeps changing, and because the business environment keeps changing, organizations need to plan, replan; they need to, , you know, set goals; then kind of revise those goals; where they need to formulate strategies and then reformulate the strategies; they continuously have to be involved in decision making, some kind of a decision making, whether the decision making is with respect to functional level strategies, like marketing, HR finance, or it is to do with product or market development, or it is to do with handling competition, or it has to do with very strategic decisions involving restructuring, diversification, expansions, mergers, acquisitions downsizing. So, you see that decision making is something which is very, very important for organizations, and it is something, which is a continuous process. We keep making decisions and it is a continuous process. It is not something that I decide today and I can sit back. No. In order to achieve a goal that I set for myself today, I need to plan, I need to organize, I need to hire people, I need to direct my workforce, and I need to control the performance. For this also, I need to decide.

Planning needs decision making; Organizing needs decision making; Staffing, hiring, training, performance appraisal, need decision making. When it comes to directing, you know, whether it is motivating people, or leading people, or communicating with them, you need to make decisions. When it is with respect to the control function, you again, need to make decisions. So, decision making is all pervasive, you know. When we talk about the five basic functions of management - planning, organizing, staffing, directing, controlling, each of these functions require some kind of a decision making. In fact, that is why Herbert Simon, an Organizational Scientist, describes decision making as synonymous to managing. He said, you know, you cannot manage without, you know, taking decisions. So, whether this planning or organizing or staffing or directing or controlling - everywhere you will see that you have to make decisions and that is why he said that decision making is synonymous to managing.

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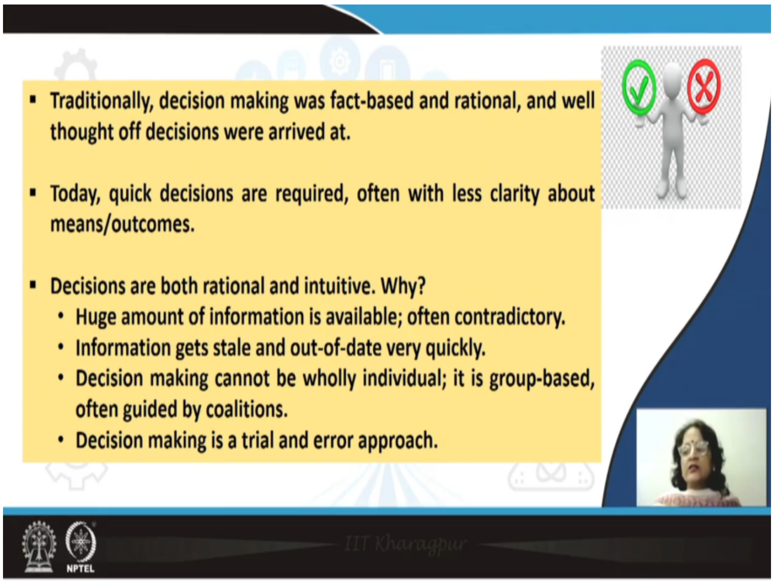

Now, traditionally, decision making was very fact-based and rational; very well-thought off decisions were arrived at. You know, whenever people made decisions, it was based on facts; whatever available information, but it was based on facts, very rational, very well-thought off, but today what is needed is very quick decisions. And you cannot be sure about the means or outcomes of those decisions.

There is very less clarity about the means and outcomes of those decisions. If you take a decision today, but you cannot be sure whether it is going to be right for you, , you know, at the end of the day. Say, I take a decision today, but whether it is going to be successful in the long run or not, cannot be said with certainty, because we actually face a VUCA environment. Well, even earlier when people made decisions in organizations, some kind of an uncertainty with respect to the outcome was there, you know, we may succeed, we may not succeed, but that was not so much. Today, because of the VUCA, because of the volatile, uncertain, complex and ambiguous environment that companies face today, quick decisions are required, and very often there is very little clarity about the consequences of those decisions. And decisions today are both rational and intuitive. Why? We have access to huge amount of information today. , you know, thanks to the Internet, there is huge information on our fingertips; we have access to any and every kind of information, but then we see, there is so much of information sources and whatever information will be available may be often contradictory; it gets outdated very quickly; what is updated today, will be outdated tomorrow; So, today, if I find , you know, if I get some facts and figures on the Internet today, but tomorrow, they would have changed because that information could have gotten updated. So, what and how I decide today, if I sit down tomorrow to take a decision, I may have to rethink again. So, there is huge amount of information available. Often this information is contradictory, and information gets outdated very quickly. It gets stale and out-of-date very, very quickly.

Also, we see that decision making today cannot be wholly individual. It has to be group based, and in companies and in organizations, it is often guided by coalitions. In a previous lecture, we have spoken about coalitions, and we have seen that coalitions are strong groups and when there are strong coalitions, the impact is a synergetic effect, where 2 + 2 is not 4, but 2 + 2 becomes 5.

So, decision making today is not wholly individual. Earlier organizations were small; they were limited to certain geographical areas, with lesser number of people, and they operated in not so diverse environments; in not so spread out geographical contexts. But today, organizations are huge, they are big, they operate as multinationals; they have different divisions, they have different product lines, and they operate at a huge scale and companies are big; the huge; extent of operations is large; and so, decision making cannot be wholly individual. It has to be group based, it has to be guided by coalitions. Even in smaller organizations, we see. In smaller organizations also, decisions are often taken in a group and it is based on facts; it is based on logic; it is rational; but a lot of it is intuitive; it is based on gut feeling; it is based on one's unconscious; it is based on one's experiences of the past which are stored in the memory, and as a part of the unconscious.

And decision making often ends up being a trial-and-error approach, because you cannot be sure of the consequences. As I said earlier, you know, earlier one could be sure of the outcome, or even if they were not sure there was lesser uncertainty, with respect to the outcome of a decision, with respect to the consequences of a decision, but today, you cannot be sure about it. And so, decision making is often a trial and error approach.

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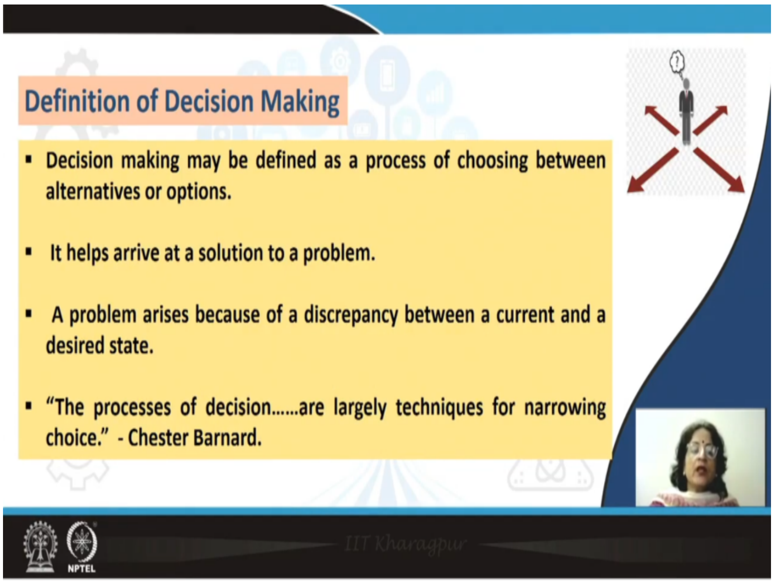

Now, what is decision making? So, decision making may be defined as a process of choosing between different alternatives or between different options. So, there is a problem that you need to resolve, or there is an opportunity that you want to take advantage off. If we look at decision making, we start with a problem statement, but that problem statement can also be an opportunity.

So, you have two sides of the coin. One is, with respect to problem solving, you know, identification of a problem, and problem solving. The other part of the coin is an opportunity that you can take advantage off. So, if you look at decision making, one side of the coin would be a solution to a problem; another side of the coin would be trying to take advantage of an opportunity in the business environment. So, whatever it is, once you have identified a problem, or you have looked for an opportunity, or you have identified an opportunity which you want to take advantage off; the next thing that comes in is, you look for alternatives, you know; how to solve the problem, or how to take advantage of the opportunity. In either case, what you arrive at is a set of alternatives and you have to choose from one or fewer of those alternatives. You have to choose one from those alternatives or from those options. So, when we talk of decision making, we say, it is the process of choosing between alternatives or options, and decision making helps arrive at a solution to a problem. Now, a problem arises why? Because there is a gap or there is a discrepancy between a current state and a desired state. So, you want to reach here, but you are here. So there is a big gap, here. You want to close that gap, you want to increase your performance for example. So, to plug that gap; how do you plug that gap? The gap itself becomes a problem, and you now need to plug that gap. So, a problem arises because of this gap; the gap between the actual and the desired; a gap between the current and the desired. So, problem arises because of this gap, and a manager must address this gap. He must try to bring the current to a desired state and as he has to bring the current to a desired state, he has several alternatives to choose from. How does he get to that desired level of performance, or of productivity, or whatever? So, that is where he realizes that there are a lot of alternatives, and once there are a lot of alternatives, he must choose one of them to be able to fill that gap.

So, decision making helps arrive at a solution to a problem. In fact, Chester Barnard - he has said that the process of decision … are largely techniques for narrowing a choice; narrowing a choice between what? Narrowing a choice between the alternatives. Ultimately you choose one alternative. So, decision making is a process of choosing between alternatives or between options.

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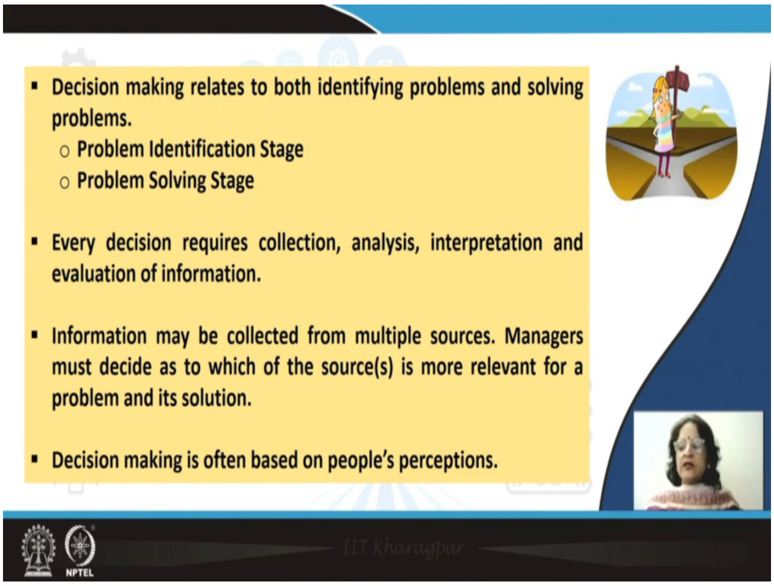

Now, decision making relates to both identification of a problem and solving of a problem. So, there are 2 stages - problem identification stage, and problem solving stage. And so, you identify a problem, and then you look for a solution to the problem. So a problem identification stage, and a problem solving stage. Now every decision requires collection of data, analysis of data, interpretation and evaluation of the data. Every decision requires collection of information, analysis of information, interpretation of information, and evaluation of information. Most of this information that we collect is from multiple sources, and managers must very carefully decide as to which of the sources can be regarded as most reliable, most relevant for a problem and for the solution. So, whenever we make a decision, you have to identify it and then solve it. So, there is a problem identification stage, and a problem solving stage; and in order to solve the problem, you will need information.

A decision will require information. It will require collection, analysis, interpretation and evaluation of information, and this information will be available from a large number of sources, and managers have to decide which of the sources, they should rely upon for a particular problem and for solving that problem.

Also one has to note the decision making is often based on people's perceptions, you know. Whenever we make a decision, it is going to be how we perceive things around us; how we perceive the problem? How we perceive the alternatives? And how we perceive the outcome of, you know, a decision that we are going to take? So, decision making is often based on people's perceptions about the problem as well as about the alternatives and about the best alternative so that when it gets implemented, there is a positive outcome of the decision.

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Now, what are the different types of decisions? Decisions can be categorized as programmed decisions and non-programmed decisions.

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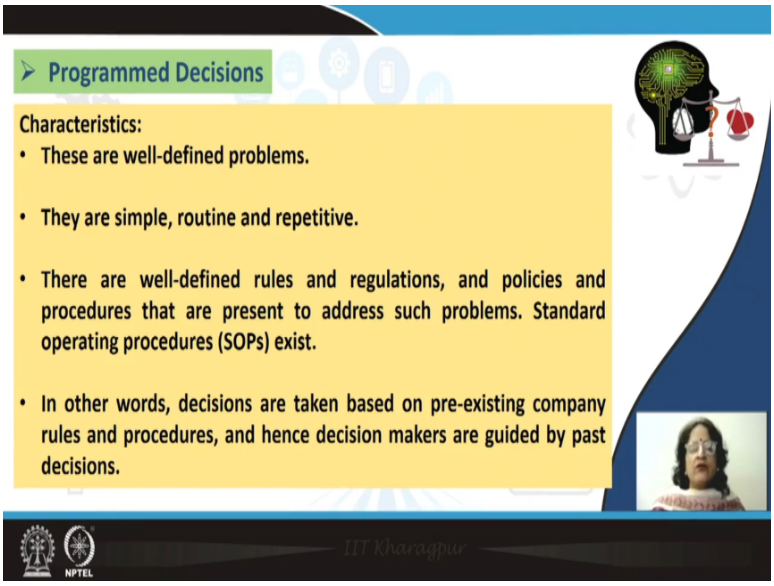

So, when we talk about programmed decisions, we are talking of decisions which are very defined problems; they are very simple, routine; they occur on a day-to-day basis, and they are very repetitive. So, they have well-defined rules and regulations, and policies and procedures that are present to address such problems. Standard operating procedures are there, which can be used to solve such problems. So, programmed decisions are very well-defined problems, routine, repetitive, frequently occurring, simple, and because they are routine and repetitive, there are well-defined rules and regulations, policies and procedures to address such problems. Standardized operating procedures are there, which will help reach a solution to that problem. So, in other words, the decisions are taken based on pre-existing rules, regulations, policies, procedures, and hence decision makers are often guided by past decisions, they see, what happened in the past. What was the precedent? Is there a precedence? Is there a similar decision we have taken earlier? Yes, we have. Okay, so, let us now decide in the same manner. So, because these problems are routine problems, repetitive problems, occur frequently, simple problems, and because, you know, they are dealt with very frequently, there are well-defined rules regulations, policies, procedures, which exists to deal with such problems. So, decisions are actually taken on the basis of such pre-existing company rules and regulations and procedures. And decision makers are often guided by past decisions, the precedents that have been there earlier, the precedents to such problems. Was the problem like this earlier? Yes. What decision did we take? This; So, let us do this, or let us try, and take the same decision or a similar decision. So, these are programmed decisions.

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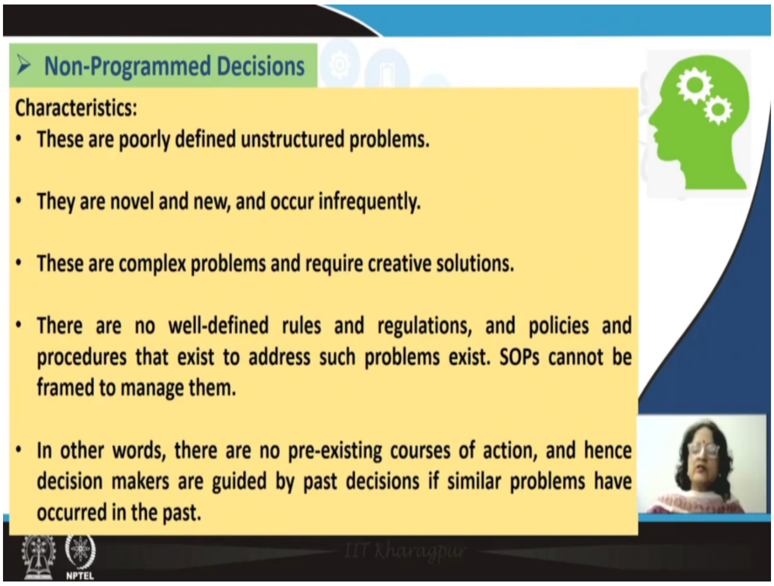

We have also something called non-programmed decisions. Now, what are non-programmed decisions? Non-programmed decisions are opposite to programmed decisions. They are novel; they are new; they occur infrequently, and they are poorly defined unstructured problems, very complex. And what do they require? They require a novel approach to problem solving. They require creative solutions. There are no well-defined rules, regulations and policies and procedures that exist, you know, to address such problems. No SOPs. Standardized Operating Procedures cannot be framed to manage them because these are novel, these are new; there is no precedence, and these are very different to each other. So, there are no pre-existing courses of action and so, decision makers cannot be guided by past decisions, even if similar problems have happened in the past.

There are no pre-existing courses of action, and hence, decision makers can only be guided by past decisions if similar problems have occurred in the past. What I mean to say is that such problems are novel and new. They are unstructured. And so, there are no well-defined rules and regulations, or policies and procedures that exists to address such problems. You do not have well-defined rules and regulations, and policies and procedure to address such problems. There are no pre-existing courses of action, because such problems were not there in the past, or even if they were there, they were not absolutely similar, or absolutely same. So, there are no pre-existing courses of action and hence, decision makers are guided by past decisions, if similar problems have occurred in the past.

But if similar problems have not occurred in the past, they cannot rely on precedents. In the programmed decisions, they could rely on precedents, because the same problems have happened earlier. But here, because these are new, these are novel, and the manager or the management cannot rely on precedence, cannot rely on, you know, on decisions taken in the past. Yes, any kind of a problem with the company faces today is similar to something which happened, so the decision makers may be guided by past decisions, but it only a guide; they cannot have the same approach or the same decision. Because in programmed decisions, such problems have happened earlier. And so, a decision which was taken earlier can be taken now. So, the decision makers are guided by past decisions, and they can have, you know, take the same decision. But in the case of non-programmed decisions, no pre-existing courses of action are there. Yes. If there is a problem which is novel, new, complex, and something similar happened earlier, long back, then the manager may be guided, but they cannot take the same decision; they cannot implement the same decision because these decisions are different; sorry, these problems are different. These problems are different and so, the decision that we will take will also have to be different. So, programmed decisions are those which are well-defined problems, simple, routine, repetitive; well-defined rules and regulations are there; policies and procedures are there to address such problems. Standardized operating procedures can be used, and decisions are taken based on pre-existing company rules and policies, rules and procedures, and hence, decision makers are guided by past decisions. But in the case of non-programmed decisions, they are poorly defined, unstructured problems. Novel, new, occur infrequently, very complex, need creative solutions; there are no well-defined rules and regulations, and, you know, there are no policies and procedures that exist to handle such problems.

So, standardized operating procedures cannot be framed to manage them because, the problems will be different from one another. So, there are no pre-existing courses of action, and decision makers are guided by past decisions, only and only if similar problems have happened in the past; similar, not same.

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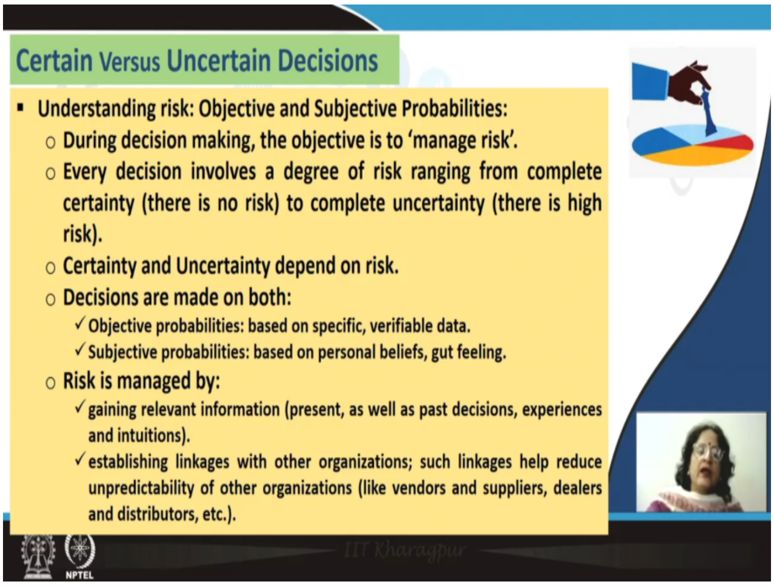

Then we come to certain versus uncertain decisions. Now, whenever managers have to take decisions, they have to understand the risk, and when we talk about risk here, and understanding of risk, we have to talk about the objective and subjective probabilities. Now, whenever we make a decision, we are trying to manage the risk. The objective is to manage risk. Every decision involves some degree of a risk. Every decision involves a degree of risk, which can range from 'no risk to high risk'. So, there is complete certainty. In situations of complete certainty, there is no risk; but in conditions of complete uncertainty, there is high risk, and every decision making involves that the manager manages this risk factor. So, managers have to understand the risk, and they have to manage the risk. During decision making, the objective is to manage the risk and every decision, because whenever we take a decision, we are surrounded by the VUCA - volatile, uncertain, complex and ambiguous environment. So, every decision which we are taking, we are going to take in a VUCA environment, and every decision is going to involve some level of risk. If there is no risk, we are talking of a situation of complete certainty.

If there is huge risk, we are talking of a situation of complete uncertainty. So, every decision involves a degree of risk. When there is complete certainty, there is no risk; but when there is complete uncertainty, there is huge risk, and the manager's job or the decision maker's job is to manage this risk. So, certainty and uncertainty depend upon risk; certainty is high, risk is less; uncertainty is high, risk is more.

So, decisions are made on both objective probabilities as well as subjective probabilities. Objective probability is based on specific verifiable data. On the other hand, subjective probabilities are more to do with personal beliefs, intuition, gut feeling. And how do you manage risk? Risk is managed by gaining relevant information; information with respect to present as well as past decisions, experiences and intuitions. And you also manage risk by establishing linkages with other organizations, you know, because such linkages with other organizations particularly your vendors, your suppliers, your dealers and distributors, will help reduce unpredictability. So, managers or leaders can manage risk by having access to relevant information, whether the information is with respect to present, or information about past decisions enriched with experiences, gut feeling, intuition as well as establishing linkages with other organizations, be it vendors, suppliers, dealers, distributors, etcetera, because that will help produce unpredictability for the organization or for the manager.

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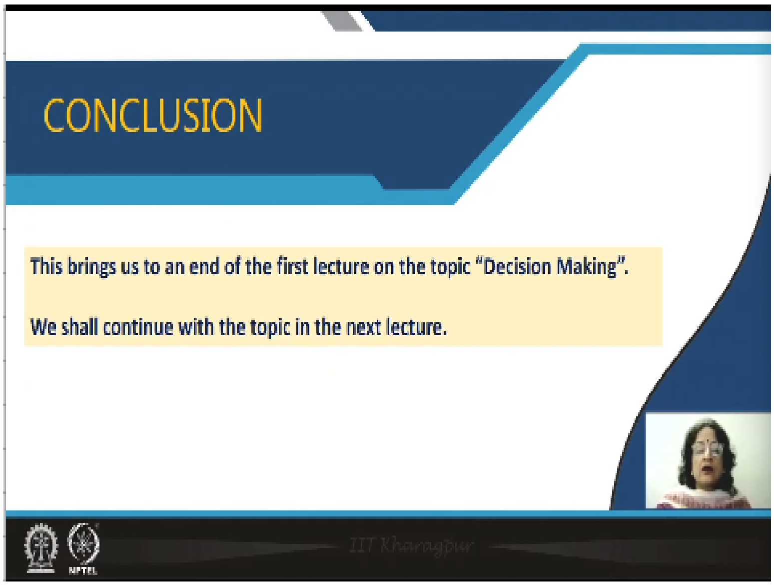

So, with this, I come to an end of this lecture. These are the references. We shall continue with the topic in the next lecture. Thank you.